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Gilsonite miner lags on royalties, bemoans market troubles

It's hard to sell a mine product if the world market is controlled by miners next to you. That's what Utah State Land Board members heard when they sought to collect some $43,000 from a small mining company whose joint venture operator had fallen behind in royalty payments due the state.

Appearing before the November meeting of the Utah State Land Board, the vice president of Hydrocarbon Resources Co., Martin Egbert, explained that his company was taking over as operator of the Cottonwood Gilsonite Mine located near Vernal on state-owned land.

Hydrocarbon, a subsidiary of the publically held Western Strategic Minerals, has recently signed an agreement with its 50 percent joint venture partner, Miocene, taking control of the project.

Egbert requested a waiver of penalties and/or fines and asked for five years additional time to pay the nine months past due $39,385 royalty monies.

According to state officials, Hydrocarbon Resources is now subject to a 6 percent penalty, totaling $1751 plus interest through October 31, 1984, totaling $2442. The amount owed the state adds up to $43,578, Egbert was told.

The company vice president tried to explain the difficulties of the mining venture. He said gilsonite production in the Uintah basin has three operators: American Gilsonite, a subsidiary of Chevron, Ziegler Chemical and Hydrocarbon Resources. Together, the three operators supply virtually all the demand, he asserted.

"American Gilsonite produces 90 percent of world market supply and Ziegler produces 10 percent," Egbert said. He estimated his company may be producing and selling 1 percent of the total market demand.

Egbert said his company and its former partner, Miocene, had invested $1 million in the Cottonwood Mine, which includes its own processing facility. In addition, they market their own product.

"We have just about broken even," he said, further explaining the cost of mining the gilsonite ore, which board members thought sold at $175 a ton.

Production started over a year ago, he said. There have been problems breaking into the gilsonite market because of the near "monopoly" of the American Gilsonite operation which has been in the business over 20 years.

The small company's gilsonite sells for 10 to 20 percent less than American Gilsonite prices, Egbert said. Another Hydrocarbon Resources official, Clay Stringham, attempted to convince the Land Board that the 12½ percent the gilsonite mine pays the state is too high.

Stringham explained that the gilsonite ore is hoisted from the mine and crushed at the company's nearby preparation plant to a quarter-inch size. Some of the mine's customers, he said, require gilsonite that is pulverized down to a 30 mesh and bagged.

Board members, however, weren't willing to discuss a change in the royalty payment schedule because the mining venture has failed to pay the state for the last nine months.

"We have a bill for $39,000. We're going to act on a request of monthly payment," one state Land Board member sternly told Hydrocarbon officials when they continued to plead for a lowering of the 12½ percent royalty. They were told by the board that they must request another hearing if they wished to attempt lowering of the state's 12½ percent royalty interest.

Meanwhile, the board gave them 2½ years to get caught up on the past due royalties while still paying the current royalty for production of gilsonite on state owned land.

—Leland Weeks